

KEENE TOWNSHIP

Ionia County, Michigan

Financial Statements

And

Independent Auditor's Report

For the Year ended March 31, 2006

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name KEENE TOWNSHIP	County IONIA
Fiscal Year End MARCH 31, 2006	Opinion Date JULY 24, 2006	Date Audit Report Submitted to State AUGUST 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.


We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

YES ☒ NO ☐ Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) LAWRENCE TIEJEMA, PC		Telephone Number 616-642-0384	
Street Address 1187 HAWLEY HIGHWAY		City SARANAC	State MI
		Zip 48881	
Authorizing CPA Signature 		Printed Name LAWRENCE TIEJEMA	License Number L 348088

KEENE TOWNSHIP

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INDEPENDENT AUDITOR'S REPORT

July 24, 2006

The Township Board
Keene Township
Ionia County, Michigan

I have audited the accompanying financial statements of the governmental activities and the aggregate remaining fund information of Keene Township, Ionia County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. My responsibility is to express opinions on these financial statements based on my audit.

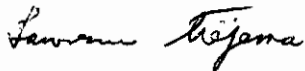
I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the aggregate remaining fund information of Keene Township, as of March 31, 2006, and the respective changes in financial position, and the budgetary comparison for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, I have also issued my report dated July 24, 2006, on my consideration of Keene Township's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

The Management's Discussion and Analysis on pages 3 to 9 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Keene Township's basic financial statements. The governmental schedules have been subjected to auditing procedures applied in the audit of the basic financial statements and, in my opinion, are fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.



Lawrence Tiejema, PC.

July 24, 2006

Management Discussion and Analysis

Keene Township has faced many financial challenges in recent years while providing necessary services to its citizens. During the past year the township's expenditures exceeded revenues by \$9,812, reducing the township's net assets to \$237,761. This reserve is available to fund necessary road maintenance, information technology, public safety and ambulance services, and respond to major problems and disasters such as road and/or bridge failures.

Financial Highlights

- (1) Net assets fell from \$247,573 to 237,761 as the Township invested in its township hall and roads. Capital assets including building, equipment, and township property represent \$32,159 of the net assets, while \$205,602 represents cash deposits, receivables, and prepaid expenses.
- (2) New carpet was installed in the meeting room of the township hall, and new vinyl flooring was installed on the kitchen and bathroom floors at a cost of \$4,077.
- (3) Road upgrades were performed on the intersection of Sayles Road and Marble Road. Marble Road was upgraded from French Drive to Sayles Road at a cost of \$27,000. Marble Road was widened at the intersection, and the grade of the hill south of the intersection was reduced. These upgrades will increase safety for all vehicles including school buses.
- (4) The township used a letter of credit regarding Sundry Corporation to assure the completion of the paved road in the Country View Site Condominium.
- (5) Telecom fees of telecommunication companies for the use of Keene Township road right-of-ways dropped to \$2,839 for the year ended March 31, 2006, from \$3,294 for the year ended March 31, 2005. However, state revenue sharing increased \$1,254 to a total of \$112,114 for the year ended March 31, 2006.
- (6) The Township Board authorized the Treasurer to invest excess cash in certificates of deposit at higher interest rates. During the past fiscal year, \$40,000 was withdrawn from the general fund checking account and invested in a CD at 4.84%.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements comprise three components: (1) government-wide financial statements; (2) fund financial statements; and (3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all the Township's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating. The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Township governments may have activities that are intended to recover all or a significant portion of their costs through user fees and charges. Keene Township has no such activities. All financial resources and expenditures are maintained in the general fund. The township also has a tax agency fund which collects real and personal property taxes and disburses these tax revenues to the appropriate governmental units including Keene Township's general fund. Through its general fund, Keene Township provides for general government, public safety, public works, cemeteries, and planning and zoning. The government-wide financial statements can be found on pages 10-12 of this report.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government wide-financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

Fiduciary Funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds. Keene Township has one fiduciary fund, the tax agency fund.

The basic fiduciary fund statements for the tax agency fund can be found on page 16 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund statements. The notes to the financial statements can be found on pages 17-28 of this report.

Keene Township's Net Assets

Keene Township's Net Assets

Governmental Activities

	Year ended March 31, 2006	Year ended March 31, 2005
Current and other assets	210,359	219,908
Capital assets	32,159	30,165
Total assets	242,518	250,073
Long-term liabilities outstanding		
Other liabilities	4,757	2,500
Total liabilities	4,757	2,500
Net assets:		
Invested in capital assets, net of related debt	32,159	30,165
Restricted		
Unrestricted	205,602	217,408
Total net assets	237,761	247,573

Keene Township's assets consist of cash, certificates of deposit, building and equipment, and township real estate. Of the cash assets of \$163,499 as of March 31, 2006, \$64,044 is deposited in the township's checking account and \$99,455 is held in certificates of deposit yielding interest rates from 4.84% to 5.41%. The other \$46,860 in current assets consists of prepayment of expenses and taxes and fees receivable from the 2005 tax collection.

Keene Township's liabilities consist of pension payments due and accrued expenses incurred before April 1, 2006, and paid during the following year. Keene Township will make its pension contribution based on the earnings of its beneficiaries from April 1, 2005, through March 31, 2006. Its pension administrator, John Hancock, notifies the Township approximately 90 days after the close of the fiscal year. Of the \$4,757 in accrued liabilities, the share for pension accrual is \$3,045.

Keene Township's Changes in Net Assets

	Governmental Activities	
	<u>Year ended 03/31/2006</u>	<u>Year ended 03/31/2005</u>
Revenue:		
Program revenue:		
Charges for services	6,596	8,767
General revenue:		
Property taxes	46,730	44,622
State Sources	112,114	110,957
Other	7,477	3,542
Total revenue	<u>172,917</u>	<u>167,888</u>
Expenses:		
General government	53,317	53,124
Legislative	7,948	7,688
Public safety	24,885	19,037
Public works	77,322	44,850
Planning and Zoning	13,777	14,148
Cemetery	5,480	5,363
Total expenses	<u>182,729</u>	<u>144,210</u>
Increase (decrease) in net assets	<u>(9,812)</u>	<u>23,678</u>
Net assets – beginning of year	247,573	223,895
Net assets – end of year	<u>237,761</u>	<u>247,573</u>

The Township Board improved the dangerous intersection of Sayles and Marble Roads at a cost of \$27,000. This contributed to a \$32,191 increase in road maintenance funding over the previous fiscal year. Contributions to the Saranac Fire Department increased \$5,644 -- going from \$12,237 to \$17,881. Keene Township is a 17% stakeholder in the Saranac Volunteer Fire Department and shares in both service and equipment upgrade needs.

At the same time, property tax and state revenue sharing increased slightly while interest income rose from \$3,542 to \$6,288. These revenue increases kept the deficit of expenses over revenues under \$10,000.

Keene Township's Capital Assets

Keene Capital Assets – net of depreciation

	Governmental Activities	
	<u>Year ended 03/31/2006</u>	<u>Year ended 03/31/2005</u>
Land	13,795	13,795
Buildings and Improvements	17,135	14,570,
Machinery and Equipment	<u>1,229</u>	<u>1,800</u>
Total Assets	<u>32,159</u>	<u>30,165</u>

The Keene Township board has been conservative in the purchase of its capital assets. The township hall, including well and septic, cost a total of approximately \$31,160 in 1980. The township's major equipment consists of computers used by the clerk and treasurer, furniture, and a copy machine. The maximum amount of use is extracted from each asset before it is replaced. During the fiscal year ended March 31, 2006, the Township invested in new carpeting for the township meeting room and new vinyl flooring for the kitchen and bathroom at a cost of \$4,077. This raised the capital assets net of depreciation from \$30,165 to \$32,159.

Keene Township – Past and Future

For the year ended March 31, 2006 Keene Township ran a deficit of \$9,812 in comparison to a surplus of \$23,562 in the year ended March 31, 2005. This caused the township's fund balance to fall to \$237,761. Since Keene Township carries no debt, all of this amount can be used to fund needed operations and emergencies. These reserves represent 1.31 times the township's normal expenditures for a year.

The Township's relatively high financial reserve will be useful in the coming years. A part of the Township's reserve was used in 2005 to improve a dangerous intersection. There are many similar road problems throughout Keene Township. Increased population growth in the western half of the township is putting stress on gravel roads that were intended for agricultural implement use of 60 years ago and an occasional car or truck. Since the State of Michigan is not funding the Ionia County Road Commission at a level that will enable it to maintain township roads, township residents look to the township board for assistance.

In addition to road funding, Keene Township is facing increasing costs for fire protection and computer technology. As mentioned earlier, equipment upgrade expenses of the Saranac Fire Department are proportionally passed along to the Township. The computers of the clerk and treasurer were purchased in 2000 and 2002 and will need replacement in next two to three years.

The adoption of a revised Master Plan in 2005 will be helpful in meeting township goals. The updated Master Plan acts as a support for the Keene Township zoning ordinance. This should reduce legal expenses needed to defend the zoning ordinance. The Master Plan may also help to maintain a balance between agricultural and residential uses so that township services and taxes can be kept at the lowest possible level.

In summary, the Keene Township Board is striving to provide necessary services today while keeping an adequate financial reserve for future emergency road and safety needs.

KEENE TOWNSHIP
STATEMENT OF NET ASSETS

March 31, 2006

	<u>Governmental Activities</u>
Assets	
Cash and deposits	\$ 163,499
Receivables	
Due from other funds	44,872
Prepaid expenses	1,988
Capital assets, net of accumulated depreciation	<u>32,159</u>
Total Assets	<u>242,518</u>
Liabilities	
Accounts payable	<u>4,757</u>
Total Liabilities	4,757
Net Assets	
Invested in capital assets, net of related debt	32,159
Unrestricted net assets	<u>205,602</u>
Total net assets	<u><u>237,761</u></u>

The accompanying notes are an integral part of these financial statements.

KEENE TOWNSHIP
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED MARCH 31, 2006

Functions/ Programs	Expenses	Program Revenues	
		Charges for Service	Net (Expense) Revenues
Primary government			
Governmental activities:			
General government	\$ 53,317	\$ 3,221	\$ 50,096
Legislative	7,948		\$ 7,948
Public safety	24,885		\$ 24,885
Public works	77,322		\$ 77,322
Planning and Zoning	13,777	3,375	\$ 10,402
Cemetery	5,480		\$ 5,480
Total government activities	182,729	6,596	176,133

The accompanying notes are an integral part of these financial statements.

(continued)

KEENE TOWNSHIP
STATEMENT OF ACTIVITIES (CONCLUDED)
FOR THE YEAR ENDED MARCH 31, 2006

	<u>Governmental Activities</u>
Changes in net assets	
Net (expense) revenue	176,133
General revenues:	
Property taxes	46,730
State revenues	112,114
Investment earnings	6,288
Other Income	<u>1,189</u>
Total general revenues	<u>166,321</u>
Change in net assets	(9,812)
Net assets, beginning of year	<u>247,573</u>
Net assets, end of year	<u><u>237,761</u></u>

(concluded)

The accompanying notes are an integral part of these financial statements.

**KEENE TOWNSHIP
BALANCE SHEET
GOVERNMENTAL FUNDS
MARCH 31, 2006**

ASSETS	GENERAL FUND
Cash and deposits	\$ 163,499
Receivables:	
Due from other funds	44,872
Prepaid expenses	1,988
TOTAL ASSETS	210,359
LIABILITIES AND FUND BALANCE	
LIABILITIES:	
Accounts payable and accrued expenditures:	
Accounts payable	4,757
TOTAL LIABILITIES	4,757
FUND BALANCE	
Undesignated	205,602
TOTAL LIABILITIES AND FUND BALANCE	\$ 210,359

**RECONCILIATION OF FUND BALANCE ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF THE GOVERNMENTAL
ACTIVITIES ON THE STATEMENT OF NET ASSETS**

Fund balance -- total governmental funds.....	205,602
Amounts reported for <i>governmental activities</i> in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources and therefore are not reported in the funds.	
Add -- capital assets.....	66,713
Deduct -- accumulated depreciation.....	(34,554)
Net assets of governmental activities.....	237,761

The accompanying notes are an integral part of these financial statements.

KEENE TOWNSHIP

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS**

FOR THE YEAR ENDED MARCH 31, 2005

	GENERAL FUND
REVENUES:	
Property taxes	\$ 46,730
State sources	112,114
Charges for services	6,596
Interest	6,288
Other	1,216
TOTAL REVENUES	172,944
EXPENDITURES:	
General government	52,773
Legislative	10,513
Public safety	24,885
Public works	77,322
Planning and zoning	13,777
Cemetery	5,480
TOTAL EXPENDITURES	184,750
REVENUES OVER EXPENDITURES	(11,806)
NET CHANGE IN FUND BALANCES	(11,806)
FUND BALANCE, BEGINNING OF YEAR	217,408
FUND BALANCE, END OF YEAR	\$ 205,602

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND
BALANCES OF GOVERNMENT FUNDS TO THE STATEMENT OF ACTIVITIES**

Net change in fund balances -- total government funds.....	-11,806
Government funds expense capital outlays in the current year while the Statement of Net Assets allocates them over useful life:	
Add -- Capital Assets acquired and expensed by depreciation	4,077
Deduct - depreciation expense.....	(2,056)
Deduct - Gain on sale of voting machines less than gross receipts of sale	(27)
Change in net assets of government activities.....	\$ (9,812)

The accompanying notes are an integral part of these financial statements.

**KEENE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2006

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Property taxes	40,000	40,000	46,730	6,730
State sources	103,000	103,000	112,114	9,114
Charges for services	5,500	5,500	6,596	1,096
Interest	1,450	1,450	6,288	4,838
Other	0	0	1,216	1,216
TOTAL REVENUES	149,950	149,950	172,944	22,994
EXPENDITURES				
General government	56,410	57,190	52,773	4,417
Legislative	8,000	11,112	10,513	599
Public safety	24,600	24,885	24,885	0
Public works	38,440	77,323	77,322	1
Planning and zoning	16,800	17,944	13,777	4,167
Cemetery	5,700	5,700	5,480	220
TOTAL EXPENDITURES	149,950	194,154	184,750	9,404
REVENUES OVER (UNDER) EXPENDITURES	0	(44,204)	(11,806)	32,398
NET CHANGE IN FUND BALANCES	0	(44,204)	(11,806)	217,292
FUND BALANCE, BEGINNING OF YEAR	217,408	217,408	217,408	-
FUND BALANCE, END OF YEAR	217,408	173,204	205,602	-

The accompanying notes are an integral part of these financial statements.

KEENE TOWNSHIP
FIDUCIARY FUND
TAX AGENCY FUND

STATEMENT OF NET ASSETS

MARCH 31, 2006

Assets

Cash in bank	\$ 44,872
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Liabilities

Due to other funds	<u>\$ 44,872</u>
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STATEMENT OF RECEIPTS AND DISBURSEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

Receipts

Tax Collections	\$ 1,202,562
Interest income	<u>1,209</u>
Total cash receipts	1,203,771

Disbursements

Tax payments to government agencies	<u>1,198,699</u>
Total cash disbursements	<u>1,198,699</u>

Total receipts over (under) disbursements	5,072
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Cash balance at the beginning of the year	<u>39,800</u>
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Cash balance at the end of the year	<u>\$ 44,872</u>
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The accompanying notes are an integral part of these financial statements.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Keene Township was organized on April 4, 1842, under the applicable laws of the State of Michigan. The Township is governed by a Board of Trustees which consists of Supervisor, Clerk, Treasurer, and two Trustees, and provides the following services: public safety (fire, ambulance), road maintenance, cemetery, public improvements, planning and zoning, and general administrative services.

The financial statements of the Township have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Township's accounting policies are described below:

The Reporting Entity

As required by generally accepted accounting principles, these financial statements present the a financial report on all funds of Keene Township.

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Keene Township has no business-type activities or funds.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for government funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Agency funds follow the accrual basis of accounting and they do not follow a measurement focus because they do not report the results of operations (assets equal liabilities). Revenues are recorded when earned and expenses are recorded when liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year in which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available to finance expenditures in the current period. Property taxes, intergovernmental revenue, charges for services and interest associated with the current fiscal period are all considered to be susceptible to accrual. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the Township. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Grant revenues are considered to be available when all eligibility requirements imposed by the provider have been met. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service and compensated absences expenditures are recorded only when payment is due.

Fund Accounting

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprises its assets, liabilities, fund equity or net assets, revenues, and expenditures or expenses, as appropriate.

Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The Township reports the following major government fund:

General Fund – This fund is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Additionally, the Township reports the following fund type:

Tax Agency Fund – This fund is used to account for property tax collections from real and personal property owners in Keene Township, and the fund’s disbursements to the applicable government entities and agencies.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance in the Statement of Net Assets and the Statement of Activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Budgets and Budgetary Accounting

Annual budgets are adopted for the general fund on a basis consistent with generally accepted accounting principles (GAAP). The Township follows these procedures in establishing the budgetary data which is reflected in the financial statements:

1. The budgets are generated with input from various department heads, the township supervisor, clerk, treasurer, and township trustees.
2. Public hearings are conducted to obtain taxpayer comments and recommendations. The operating budgets include proposed expenditures and the means of financing them.
3. The budget is legally enacted through the passage of a resolution.
4. Formal budgetary integration is employed as a management control device during the year for all budgeted funds.
5. Budget appropriations lapse at fiscal year-end

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

5. Adoption and amendments of all budgets used by the Township are governed by Public Act 621. Expenditures may not exceed appropriations at the functional level for all funds (the legal level of budgetary control). The appropriations resolutions are based on the projected expenditure budgets by function. Any amendment to the original budget must meet the requirements of Public Act 621. Any revisions that alter the total expenditures of any department must be approved by the Township Board.
6. Budgeted amounts are as originally adopted, or as amended by the Township Board. Supplemental budget appropriations were made during the year.
7. Encumbrance accounting is not utilized.

Investments

Investments are stated at fair value.

Restricted Assets

Certain proceeds may be set-aside or restricted for the repayment of debt obligations, a planned capital project, or for any other special purpose. Keene Township has no restrictions on its net assets.

Due To and Due From Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

Capital Assets

Capital assets, which include property, plant and equipment, are reported in the governmental funds in the government-wide financial statements. The Township does not currently own infrastructure (roads, tunnels, bridges, etc.) Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related capital assets, as applicable.

Depreciation on the capital assets of the primary government is computed using the straight-line method over the following estimated useful lives:

	<u>Depreciable Life-Years</u>
Building and structures.....	10 - 40
Furniture and equipment.....	5 - 15
Building and lot improvements.....	15
Trucks and vehicles.....	5
Machinery and equipment.....	5 - 15

Property Taxes

Property taxes for the Township are attached as an enforceable lien on property as of December 1 of each year. The December 1 levy is recorded as a revenue during the current fiscal year, and is intended to fund expenditures of the current year. Taxes are levied December 1 and are due without penalty on or before February 14. These winter tax bills include the Township's own property taxes and taxes billed on behalf of the school districts and other entities in Ionia County; summer taxes are collected for the school districts and the County of Ionia.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

Real property taxes not collected are returned to the County for collection, which advances the Township 100% for the delinquent taxes. Collection of delinquent personal property taxes remains the responsibility of the Township Treasurer.

Fund Equity

In the fund statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent restricted net assets equal to restricted assets less related liabilities. The general fund of Keene Township has no reservation or designations of its \$205,602 general fund equity.

Risk Management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended March 31, 2006, the Township was covered by a liability and property insurance policy in the Michigan Township Participating Plan through Burnham & Flowers Insurance group.

The insurance limitations are: Property, \$154,444; Liability, \$2,000,000; Wrongful acts, \$2,000,000. In addition, the Township has inland marine and crime coverage.

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

2. CASH AND DEPOSITS AND INVESTMENTS

The cash and deposits, investments and restricted assets for the Township and its component unit are as follows:

Deposits:	General Fund	Tax Agency	Total
Cash and deposits	64,044	44,872	108,916
Investments	<u>99,455</u>	<u>-</u>	<u>99,455</u>
 TOTAL	 163,499	 44,872	 208,371

The carrying amount of the Township's deposits at March 31, 2006, is \$108,916. All of these deposits are insured by the Federal Deposit Insurance Corporation. In accordance with the State of Michigan policy limits, these deposits are all deposited in a Michigan bank. All accounts are in the name of the Township and a specific fund or common account. They are recorded in the Township records at fair value.

Statutory Authority

State statutes authorize the Township to invest in:

1. Bond securities, other obligations and repurchase agreements of the United States, or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts or depository receipts of a qualified financial institution.
3. Commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services that matures not more than 270 days after date of purchase.

KEENE TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

4. Banker's acceptances of United States banks.
5. Obligations of the State of Michigan or its political subdivisions that, at the time of purchase are rated as investment grade by at least one standard rating service.
6. Mutual funds registered under the Investment Company Act of 1940 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation.
7. External investment pools as authorized by Public Act 20 as amended through December 21, 1997.

Township investments are categorized to give an indication of the level of risk assumed by the entity at year-end. Category 1 includes investments that are insured or registered, or for which the securities are held by the Township or its agent in the Township's name. Category 2 includes uninsured and unregistered investments for which securities are held by the counterparty's trust department or agent in the Township's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty, or by its trust department or agent but not in the Township's name. Investments held by the Township are reported at fair value.

All deposit accounts of Keene Township are in Category 1, registered and insured and are listed as follows:

<u>Depository</u>	<u>Account</u>	<u>Amount @ 03/31/05</u>
General Fund:		
Ionia County National Bank	General Fund checking account	\$ 64,044
Ionia County National Bank	General Fund certificates of deposit	99,455
Tax Agency Fund:		
Ionia County National Bank	Operating acct – Tax Agency Fund	<u>44,872</u>
TOTAL DEPOSITED FUNDS		<u>\$ 208,371</u>

KEENE TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

3. CAPITAL ASSETS

A summary of changes in Capital Assets follows:

	Balance April 1, 2005	Additions	Disposals	Balance March 31, 2006
Governmental activities:				
Capital assets, not being depreciated:				
Land	13,795			13,795
Capital assets, being depreciated:				
Building	31,160			31,160
Building improvements	8,950	4,077		13,027
Machinery and equipment	10,381		1,650	8,731
Total assets being depreciated	50,491	4,077	1,650	52,918
Less accumulated depreciation for:				
Building	19,114	779		19,893
Building improvements	6,426	733		7,159
Machinery and equipment	8,581	544	1,623	7,502
Total depreciation charged	32,121	2,056	1,623	34,554
Total capital assets, being depreciated net	16,370			18,364
Governmental activities capital assets, net	30,165			32,159

Depreciation expense was charged to functions/programs of the general government as follows:

Elections.....	\$ 28
Clerk.....	286
Treasurer.....	230
Township hall.....	<u>1,512</u>
Total depreciation.....	\$ 2,056

KEENE TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED MARCH 31, 2006

6. CONTRIBUTORY PENSION PLAN

Keene Township contributes to a group pension plan through John Hancock Life Insurance Company. The eligible participants are the elected officials and zoning administrator. The Township contributes according to the participants compensation in the following manner:

Participants who earn less than \$400	\$ 100
Participants who earn \$400 to \$799	200
Participants who earn \$800 to \$1,999	300
Participants who earn \$1,200 to \$1,599	400
Participants who earn \$1,600 or more	500

No contributions are made by the participants. During the year ended March 31, 2005, the Township's contributed \$2,983 for wages paid from April 20, 2004, through April 19, 2005. For the year ended April 19, 2006, the Township has accrued a pension liability of \$3,045 based on compensation paid to the participants.

7. LITIGATION

In the normal course of its activities, the Township has become a party in various legal actions, including property tax assessment appeals. Management of the Township is of the opinion that the outcome of such actions will not have a material effect on the financial position of the Township and, therefore, has not reflected loss reserves in the financial statements.

8. ESCROW ACCOUNTS

As of March 31, 2006, Keene Township has one escrow account. The escrow account covers the engineering, legal, and professional expenses of Keene Township regarding the building of a private road.

KEENE TOWNSHIP

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED MARCH 31, 2006

9. DUE FROM (TO) OTHER FUNDS

Amounts due from (to) other funds representing interfund receivable and payable balances at March 31, 2005, are detailed as follows:

	<u>Due from</u>	<u>Due to</u>
General Fund	-	\$ 44,872
Tax Agency Fund	\$ 44,872	-

“Due to” and “due from” balances represent amounts in the tax-agency fund which may be transferred into the general fund.

10. PRIOR PERIOD ADJUSTMENT

The Township’s net assets for the year ended March 31, 2005, have been adjusted by \$116 for prepaid expenses and accounts payable not previously recognized for the year ended March 31, 2005. The chart below details these changes:

Net Assets, original @ 03/31/2005.....	\$ 247,457
Prepaid expenses.....	2,234
Accounts payable.....	<u>-2118</u>
Increase in Net Assets.....	<u>116</u>
Net Assets, adjusted @ 03/31/2005.....	\$ 247,573

GENERAL FUND

The General Fund is used to account for government resources that are not required legally or by sound financial management to be recorded in another fund. Revenues in this fund are derived primarily from general property taxes, fees for services, interest, state shared revenues, grant, and intergovernmental revenues. General operating expenditures of the Township are accounted for in this fund, including Township Administration, Public Safety, Public Works, and Planning and Zoning.

The legal level of budgetary control of the General Fund is at the activity level, as reflected on the following Schedule of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual.

**KEENE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2006

	BUDGETED AMOUNTS		ACTUAL	VARIANCE WITH FINAL POSITIVE (NEGATIVE)
	ORIGINAL	FINAL		
REVENUES:				
Property taxes				
Current property taxes	40,000	40,000	43,801	3,801
Delinquent property taxes	0	0	2,929	2,929
Total taxes	40,000	40,000	46,730	6,730
State sources				
State revenue sharing	103,000	103,000	112,114	9,114
Charges for services:				
Building permits	2,500	2,500	2,425	(75)
Lot splits	1,000	1,000	950	(50)
Cemetery lot sales	0	0	300	
Zoning book sales	0	0	82	
Telecom	2,000	2,000	2,839	839
Total fee revenue	5,500	5,500	6,596	714
Investment revenue:				
Interest earnings	1,450	1,450	6,288	4,838
Other revenue	0	0	1,216	1,216
TOTAL REVENUES	149,950	149,950	172,944	

**KEENE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2006

EXPENDITURES

General government

Supervisor	8,200	8,200	7,992	208
Elections	700	700	732	(32)
Assessor	8,600	9,039	9,058	(19)
Clerk	8,700	8,700	8,588	112
Board of review	850	850	560	290
Treasurer	10,660	10,660	9,846	814
Townhall	12,100	12,100	10,662	1,438
Audit & legal	2,800	2,800	1,069	1,731
Pension plan	3,000	3,341	3,528	(187)
Employment taxes	800	800	738	62
Total general government	56,410	57,190	52,773	4,417

Legislative	8,000	11,112	10,513	599
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Public safety

Fire department contributions	17,600	17,881	17,881	0
Ambulance	7,000	7,004	7,004	0
Total public safety	24,600	24,885	24,885	0

Public works

Roads	35,440	74,211	74,211	0
Drains	3,000	3,112	3,111	1
Total Public Works	38,440	77,323	77,322	1

Planning and zoning

Zoning administrator	10,500	10,500	6,466	4,034
Zoning board of appeals	300	300	195	105
Planning commission	6,000	7,144	7,116	28
Total Planning and Zoning	16,800	17,944	13,777	4,167

Cemetery	5,700	5,700	5,480	220
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Contingency	0		0	0
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TOTAL EXPENDITURES	149,950	194,154	184,750	9,404
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**KEENE TOWNSHIP
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND**

FOR THE YEAR ENDED MARCH 31, 2006

REVENUES OVER (UNDER)				
EXPENDITURES	<u>0</u>	<u>(44,204)</u>	<u>(11,806)</u>	9,329
NET CHANGE IN FUND BALANCES	0	(44,204)	(11,806)	
FUND BALANCE, BEGINNING OF YEAR	<u>217,408</u>	<u>217,408</u>	<u>217,408</u>	-
FUND BALANCE, END OF YEAR	<u><u>217,408</u></u>	<u><u>173,204</u></u>	<u><u>205,602</u></u>	-

TAX AGENCY FUND

The Keene Township Tax Agency Fund collects all personal and real property taxes assessed on real and personal property in the township. It disburses these funds to the appropriate governmental entities including school districts, the County of Ionia, and the Township's general fund.

KEENE TOWNSHIP -- TAX AGENCY FUNDS**RECEIPTS AND DISBURSEMENTS BY MONTH****FOR THE YEAR ENDED 03/31/06**

PERIOD	OPENING BALANCE	RECEIPTS	INTEREST	DISBURSE- MENTS	CLOSING BALANCE
APRIL 05	\$ 39,800.11	-	-	\$ 39,800.11	-
MAY 05	0.00	0.00	0.00	0.00	0.00
JUNE 05	0.00	0.00	0.00	0.00	0.00
JULY 05	0.00	37,792.21	0.00	18,324.50	19,467.71
AUGUST 05	19,467.71	55,945.78	4.37	57,592.19	17,825.67
SEPTEMBER 05	17,825.67	194,511.57	89.15	192,120.01	20,306.38
OCTOBER 05	20,306.38	7,718.93	9.99	22,769.86	5,265.44
NOVEMBER 05	5,265.44	1,135.22	5.49	3,374.47	3,031.68
DECEMBER 05	3,031.68	391,163.93	219.47	85,165.56	309,249.52
JANUARY 06	309,249.52	178,043.72	323.05	384,000.69	103,615.60
FEBRUARY 06	103,615.60	329,093.60	395.61	310,299.04	122,805.77
MARCH 06	122,805.77	7,156.62	161.60	85,252.45	44,871.54
TOTALS		\$ 1,202,561.58	\$ 1,208.73	\$ 1,198,698.88	

Lawrence Tiejema, PC

Certified Public Accountant

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Fax: 616-642-0610

Email: tiej@iserv.net

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT
AUDITING STANDARDS**

July 24, 2006

The Township Board
Keene Township
Ionia County, Michigan

I have audited the financial statements of the governmental activities and the aggregate remaining fund information of the Township of Keene, State of Michigan, as of and for the year ended March 31, 2006, which collectively comprise Keene Township's basic financial statements and have issued a report thereon dated July 24, 2006. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

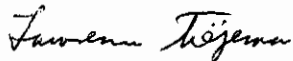
In planning and performing my audit, I considered the Keene Township's internal control over financial reporting in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Keene Township's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the township board officers, bond and credit holders, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.



Lawrence Tiejema, PC.

July 24, 2006

Lawrence Tiejema, PC

Certified Public Accountant

1187 Hawley Highway

Saranac, MI 48881

Phone: 616-642-0384

Fax: 616-642-0610

Email: tiej@iserv.net

August 9, 2006

Keene Township
8505 Potters Road
Saranac, MI 48881

To the Board of Keene Township:

I issued two reports – (1) Opinion on whether Keene Township's financial reports represent faithfully the results of operations for the year ended March 31, 2006; (2) Comments on internal control and stating whether there are material weaknesses in internal control.

While performing the audit, I observed some details of the financial records and minutes of the meetings that I may share with you. These comments may be considered topics of discussion and/or suggestions for better procedures. I would like to make the following observations:

- (1) Motions described in the minutes of your meetings do not always include an amount that is approved for a particular project or product. The motion could read "I move that we.....at a cost not to exceed \$....."
- (2) When amending the budget, the meeting minutes could reflect the accounts that will be affected and the amount of the budget amendment.
- (3) All of your deposits are located in one bank, and they exceed \$100,000. The FDIC insures only \$100,000 of the deposits in each bank. By using two banks, the township could have more of its assets insured by FDIC.
- (4) The clerk and treasurer do a good job of reconciling deposits and expenditures between books of record and bank account records. Occasionally, some deposits of the Clerk occur in a different month than is shown by the bank statements. I would suggest that the Treasurer give the Clerk a copy of the bank statements so that the Clerk can record deposits in the accounting records in the same month that they are deposited in the bank (excepting for in-transit items).

In conclusion, the Township keeps excellent records and pursues expenditures and projects that meet the needs of its citizens.

Sincerely,

A handwritten signature in cursive script that reads "Larry Tiejema".

Larry Tiejema, CPA